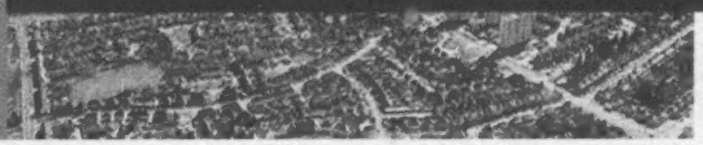
HOUSING MARKET OUTLOOK

Sherbrooke CMA



Canada Mortgage and Housing Corporation

Date Released: Spring 2008

Less rapid economic growth to affect housing market

Job creation to slow down

After a year marked by the creation of more than 2,000 jobs (+3 per cent) and a historically low unemployment rate (6.4 per cent) in 2007, the Sherbrooke census metropolitan area (CMA) economy will post a slightly weaker performance in 2008. The economic slowdown in the United States, the strong Canadian dollar and record energy costs will cause GDP growth to decelerate this year in the Sherbrooke CMA. Given that the main factor holding back the growth will be the decline in external trade, Sherbrooke's exporting companies could be harder hit over the next two years.

Around 1,000 new jobs will still be created in 2008 and 2009 (+1 per cent), mainly in the service sector.

Figure 1

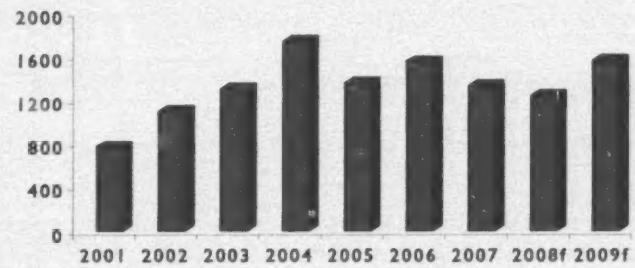


Table of contents

1 Job creation to slow down

2 Mortgage rates will remain relatively flat

2 International migration on the rise

2 Resale market to decline slightly

3 Price gap between new and existing homes narrows

4 Housing starts to fall slightly in 2008

5 Multiple-unit housing starts to pick up in 2009

5 Vacancy rate expected to rise

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View print, download or subscribe to get market information e-mailed to you on the day it is released. New ! CMHC's electronic suite of national standardized products is now available for free.

Canada

CMHC SCHL

HOME TO CANADIANS

The manufacturing sector, for its part, will continue on the downward trend that began a few years ago, as evidenced, for instance, by the recent job losses in Magog.

It should be noted, however, that the Centre hospitalier universitaire de Sherbrooke (CHUS) is planning to recruit staff starting in 2008, and Charles River Laboratories, in 2009. With retirements and the expansion of the hospital centre, the CHUS should hire 3,500 people by 2010, and Charles River Laboratories should create about 1,000 positions from now until 2013.

Mortgage rates will remain relatively flat

Various measures will however soften the impact of this slowdown on the real estate market. For example, the income tax and GST cuts will raise household disposable income. These measures will therefore help stimulate consumer spending and the regional economy.

As well, posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

International migration on the rise

Household formation will also keep going in 2008 and 2009 in the Sherbrooke CMA, although at a slightly slower pace than in previous years[1]. This decrease in the number of new households, along with a less favourable and uncertain economic environment, will weaken demand for new and existing homes over the coming year.

International migration will effectively have the most positive impact on housing demand. In fact, according to the latest available data, more than 1,100 immigrants came to settle in the Sherbrooke CMA in 2006, making for one of the highest levels since 1987. This number could even rise, given the Quebec government's will to receive more immigrants over the coming years. Around 1,150 and 1,200 immigrants should therefore settle in the Sherbrooke CMA in 2008 and 2009, respectively. Many of these newcomers will then be looking for dwellings, mainly rental, which will have a beneficial effect on demand for units of this type.

However, attracted by more rapid employment growth, a number of people will continue to head out to the Western provinces, which will lower total net migration. As for interregional movements between the Sherbrooke CMA and other urban centres across Quebec, they will remain minor, with about a hundred more people coming to live in Sherbrooke[2]. In all, around 1,050 people will therefore settle in the Sherbrooke CMA in 2008. This figure exceeds the levels recorded in the last three years (between 800 and 1,000 people) but remains below the numbers registered from 2001 to 2004 (between 1,200 and 1,300 people).

Overall, even though the government fiscal and monetary measures will stimulate housing demand, the less favourable economic and demographic conditions make a slowdown in demand unavoidable.

Resale market to decline slightly

In the Sherbrooke CMA, the good job market and relatively low mortgage rates helped the resale market stay very strong in 2007. Sales rose by 6 per cent to 1,888 units, making 2007 the most active year since data have been available. Listings, for their part, went up by 5 per cent (to 1,150 units), in line with upward trend observed since 2004.

The market effectively continued to slightly favour sellers in 2007, with a seller-to-buyer ratio of 7 to 1.

---

[1] According to forecasts established by the Institut de la statistique du Québec based on 2001 Census data.
[2] According to 2006 data compiled by the Institut de la statistique du Québec for the Estrie administrative region.

Figure 2

Consequently, the average price of homes increased by 10 per cent between 2006 and 2007, for a hike that was greater than in 2006 (+4 per cent) but less than from 2002 to 2004 (between 13 per cent and 15 per cent). However, the seller-to-buyer ratio has been rising steadily since 2003, a sign that the advantage held by sellers on the market has been progressively diminishing for the last five years.

However, the anticipated slowdown in job creation and gradually rising home prices will cause a slight decrease in existing home sales in the Sherbrooke CMA over the next two years. Even if mortgage rates will remain relatively low, lessening the financial effort required from first-time home buyers, the increase in home prices will drive up mortgage carrying costs for new homeowner households. Sales will therefore fall by 2 per cent in 2008 (to 1,850 units) and then by 3 per cent in 2009 (to 1,800 units).

Price gap between new and existing homes narrows

With the significant growth in existing home prices in recent years, the price gap between new and existing single-detached homes narrowed to just 6 per cent in the Sherbrooke CMA (excluding Magog) in 2007, making for the smallest difference since data have been available. This consequently favours the new home market, as single-detached house transactions accounted for around three quarters of all existing home sales in 2007.

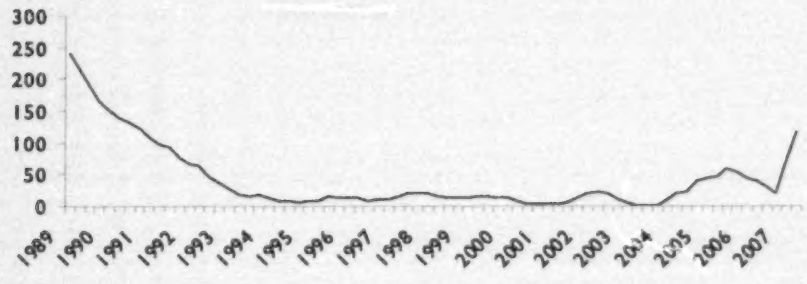
Some households, who had purchased their first home on the resale market a few years ago, could therefore be tempted to turn to the new home market in 2008 and 2009. Likewise, a number of renters wishing to access homeownership could also decide to buy new single-detached houses, which would cause transactions to decrease on the resale market.

Figure 3

Listings will rise by 4 per cent in 2008 and 2009 (to 1,200 and 1,245 units, respectively), for two reasons. First, properties will be listed longer as a result of the expected decrease in sales. Second, more listings will be

Figure 4

Unabsorbed New Units on the Rental Market
Sherbrooke CMA



Source: CMHC

added, as more households will want to sell their existing homes in order to buy new ones.

However, listings from seniors who will put their properties up for sale to move into retirement homes will not have a notable impact in 2008 or 2009. It should be noted that, in 2006, Sherbrooke was the CMA in Quebec with the lowest proportion of homeowner households aged 75 years or older (42 per cent), limiting the number of potential sellers and therefore the growth in listings on the part of seniors.

Given the opposing trends in sales and listings, the market will be tending towards balanced conditions. As a result, the price increases will be less significant. The average price of properties sold through the Multiple Listing Service (MLS)® will therefore reach $189,700 this year (+2 per cent) and $193,600 in 2009 (+2 per cent).

More significant price increases will be registered in Magog (+8 per cent), however, even though buyers will have the greatest negotiating power there (seller-to-buyer ratio of 12 to 1 in 2008). This will be due to the sales mix effect, as a number of expensive homes should change owners in this tourist area.

Housing starts to fall slightly in 2008

In 2008, housing starts will fall by 6 per cent in the Sherbrooke CMA (from 1,318 units in 2007 to 1,235 in 2008). Just like in 2007, this decrease will be due to the multiple-family housing segment. However, the single-detached home segment will benefit from the low mortgage rates and the narrower gap between new and existing single-detached home prices. In all, foundations should be laid for 680 houses of this type in 2008, compared to 666 in 2007 (+2 per cent).

It should be recalled that, in 2007, the average price of single-detached houses had risen moderately (+2.5 per cent), reaching $195,868. This was mainly due to the fact that the share of single-detached houses absorbed at prices below $150,000 had increased considerably between 2006 and 2007 (33 per cent in 2007, versus 28 per cent in 2006). Affordability had therefore significantly affected demand during this period. Although to a lesser extent, the same phenomenon should recur in 2008 and 2009.

The results in recent quarters indicate that more affordable single-detached houses should continue to account for a significant share of the starts in 2008 and 2009. Just like in the first quarter of 2007, the percentage of new single-detached homes absorbed at prices below $200,000 remained stable at 55 per cent. It should be mentioned, however, that the proportion of these houses that sold for less than $150,000 was on the decline[3]. The average price should therefore rise by 4 per cent (to $202,800) and by 3 per cent (to $207,900) over the next two years, respectively.

Multiple-family housing starts, for their part, should decrease by 15 per cent in 2008 (from 652 units in 2007 to 555 in 2008). The easing of the rental market observed in the Sherbrooke CMA in 2007 will continue to slow down rental apartment construction. In fact, it should be noted that rental

[3] 22 per cent in the first quarter of 2008, compared to 30 per cent in the first quarter of 2007.

apartment starts have been falling since the second quarter of 2007 and that unabsorbed units on the rental market have now reached their highest level since 1991[4]. Consequently, foundations should be laid for some 300 rental apartments in Sherbrooke this year, compared to 387 last year (-22 per cent).

Starts of semi-detached and row homes will rise by 16 per cent in 2008 (from 102 units in 2007 to 118 in 2008), as they are generally less costly than single-detached houses and therefore within the reach of a greater number of households. Condominium starts should also increase slightly, with 140 units expected, or 15 more than in 2007 (+12 per cent).

Multiple-unit housing starts to pick up in 2009

Many signs are however pointing to an increase in multiple-family housing starts in 2009. In fact, several major housing projects have been announced for 2009 in the Sherbrooke CMA, with the largest being located near the CHUS, in the Fleurimont district, where the CHUS and Charles River Laboratories are planning to hire 4,500 people over the next three to five years.

Since many of these people will want to live close to their work, the current supply of dwellings in the immediate vicinity will not be sufficient to meet the anticipated demand. As well, a major commercial development is planned near these homes[5].

Most of the housing units started in this sector should be rental and condominium apartments. It is also expected that construction will get under way on retirement homes with a total of more than 350 units. In 2009, foundations should therefore be laid for close to 900 multiple-family housing units[6], for an increase of 57 per cent over 2008. Single-detached home starts, for their part, should remain relatively stable (680 units in 2008, versus 685 in 2009).

Vacancy rate expected to rise

The rental housing vacancy rate[7] will increase in 2008 in the Sherbrooke CMA, as supply will rise faster than demand. In fact, the rental housing stock will grow with the recent completion of some 300 new apartments, but this growth will come at a time when the rise in demand should be small.

In fact, the formation of households aged from 15 to 34 years is expected to decrease in 2008[8]. And, this drop will be amplified by the fact that the percentage of young renter households has declined in recent years. While 93 per cent of households aged under 25 years were renters in 2001, this proportion fell to 91 per cent in 2006, down by 2 percentage points. For those households aged from 25 to 34 years, however, the difference was less than 1 percentage point. With mortgage financing mechanisms having evolved significantly in recent years, young households can now access homeownership sooner. The group of clients who normally opted for the rental market is therefore reduced.

In addition, the job market was relatively less favourable to young people in 2007, which may have caused some of them to delay their decision to leave home in the near future. While the first few months of 2008 are showing encouraging signs, the youth employment levels remain lower than during the months of January to March 2007[9].

In fact, if the growth in affordable home starts continues as expected in 2008, some renters could decide

---

[4] 12-month moving average.

[5] On Monday, November 5, 2007, City of Sherbrooke elected officials accepted the Sommets de la Santé residential and commercial development project. Source: BOMBARDIER, David, La Tribune, November 7, 2007, p. 5.

[6] It is important to specify, however, that the exact start dates are not yet known for all the major projects and that the schedules could always change. The preceding forecasts are based on the assumption that most of these projects will get under way in 2009, given that several steps must be completed before the actual start of construction. It is still possible, though, that some projects will be started in 2008, which would change the preceding forecasts.

[7] The rental housing vacancy rate does not take into account retirement home units.

[8] According to forecasts established by the Institut de la statistique du Québec based on 2001 Census data.

[9] 12-month moving average.

to access homeownership, which will once again limit demand for rental housing. In fact, the arrival of about a hundred more immigrants in the Sherbrooke area in 2008 is the factor that will most stimulate demand. However, it should be recalled that, on account of the negative net interprovincial migration, the impact of this immigration will be less considerable than expected.

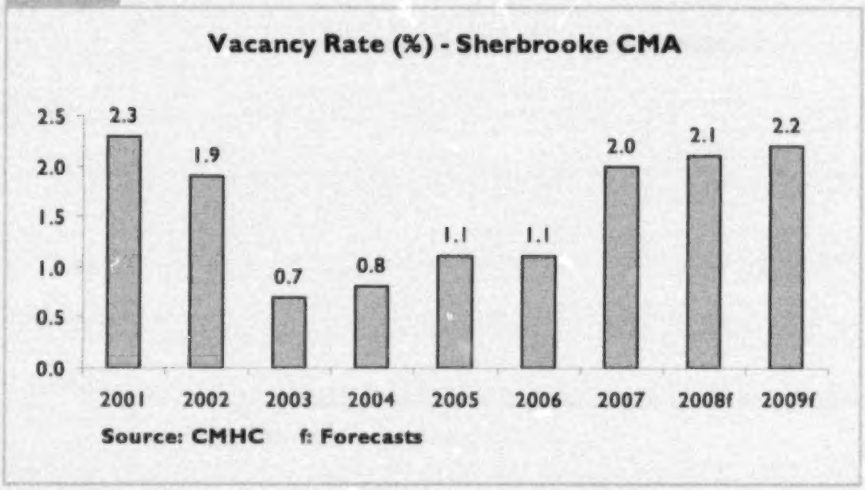
As a result, the proportion of vacant dwellings will increase slightly this year, rising to 2.1 per cent, up by 0.1 of a percentage point over 2007. The rental market will continue to ease somewhat in 2009, as the vacancy rate will reach 2.2 per cent.

Given these increases, the average rent for two-bedroom units will rise more slowly, at a rate close to inflation, going from $529 in 2007 to $545 in 2008, and then to $555 in 2009.

Retirement home market eases further

Apart from the traditional rental market, the retirement home market stood out in 2007 with a significant vacancy rate hike. In fact, after going up by 1.7 percentage points in 2006, the vacancy rate continued to rise in the Sherbrooke area, climbing from 4.5 per cent to 7.5 per cent in 2007.

Figure 5



A weaker demand for units in retirement homes, combined with a relatively stable supply, accounted for this increase.

Several factors are pointing to a vacancy rate increase in the Sherbrooke CMA in 2008. From a demographic standpoint, the slower rise in the number of households aged 75 years or older should curb the growth in demand for retirement housing units. In addition, the vacancy rates went up in most Sherbrooke districts in 2007, suggesting that latent demand has been met and that effective demand has slowed down.

More specifically, the completion of 350 new units in the northern district of Sherbrooke and in Magog could bring the vacancy rate up to 10 per cent in 2008. In addition, in the eastern district, 360 retirement housing units are expected to be built over the next two years. The addition of these 710 units (350 and 360) in the space of two years will therefore increase the supply of units by 35 per cent over the existing universe in 2007, in a context of weak demand. The vacancy rate will likely rise over the next two years.

Forecast Summary (1) Sherbrooke CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	1,823	1,779	1,888	1,850	-2	1,800	-3
MLS® New Listings	893	1,095	1,150	1,200	4	1,245	4
MLS® Average Price ($)	$161,997	$167,713	$185,155	$189,700	2	$193,600	2
New Home Market							
Starts:							
Single-Detached	714	588	666	680	2	685	1
Multiples	629	957	652	555	-15	870	57
Starts - Total	1,343	1,545	1,318	1,235	-6	1,555	26
Average Price ($) - excluding Magog:							
Single-Detached	$177,110	$191,177	$195,868	$202,800	4	$207,900	3
New Housing Price Index (% chg) (Que.)	4.9	4.4	4.2		-		-
Rental Market - excluding Magog							
October Vacancy Rate (%)	1.1	1.1	2	2.1	-	2.2	-
Two-bedroom Average Rent (October) ($)	$505	$515	$529	$545	-	$555	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.8	6.3	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.3	6.45	7.54	7.01	-	6.97	-
Annual Employment Level - excluding Magog	80,900	81,900	84,100	85,100	1	86,100	1
Unemployment rate (%) - excluding Magog	7.3	7.9	6.4	6.5	-	6.5	-
Net Migration - excluding Magog (1)	807	958	1,000	1,050	5	1,100	5

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.
MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 60 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable homes – homes that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2008 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at mailto:chic@cmhc.gc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

STAY ON TOP OF THE HOUSING MARKET

Enhance your decision-making with the latest information on Canadian housing trends and opportunities.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis** – Future-oriented information about local, regional and national housing trends.
- **Statistics and Data** – Information on current housing market activities — starts, rents, vacancy rates and much more.

Free reports available on-line:

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports - Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase
- Rental Market Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics

Free regional reports also available:

- B.C. Seniors' Housing Market Survey
- Ontario Retirement Homes Report
- The Retirement Home Market Study, Quebec Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Residential Construction Digest, Prairie Centres
- Analysis of the Resale Market, Quebec Centres

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

Sign up today and receive CMHC's Multi-Unit e-Update Newsletter

Our quarterly e-newsletter provides valuable information and expertise on a variety of topics relating to multi-unit residential housing including market insight, housing research and the latest news on our multi-unit mortgage loan insurance products.

64295_2008_B01